Perennial Income Generator Fund (Managed Fund)

ASX: EIGA

Monthly Report October 2024

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (% p.a.)
Income Distribution	0.4	1.4	1.9	7.0	7.4	6.6	7.3
Capital Growth	-3.1	-0.1	2.6	12.1	1.1	0.3	-0.4
Total Return	-2.7	1.2	4.5	19.1	8.6	6.9	6.9
Franking Credits#	0.1	0.0	0.2	1.4	2.5	2.5	2.8
Income Distribution including Franking Credits	**0.5**	**1.4**	**2.1**	**8.4**	**9.9**	**9.1**	**10.1**
Benchmark Yield including Franking Credits*	0.0	1.7	1.8	6.0	5.8	5.4	5.6
Excess Income to Benchmark#	**0.5**	**-0.3**	**0.3**	**2.4**	**4.1**	**3.7**	**4.5**

^Inception date was 7 May 2018. Fund returns are calculated using net asset value per unit at the start and end of the specified period and do not reflect the brokerage or the bid ask spread that investors incur when buying and selling units on the ASX. *Benchmark yield is calculated based on the difference between the return of the S&P/ASX300 Franking Credit Adjusted Daily Total Return Index (Tax Exempt) and return of the S&P/ASX300 Index. #Franking credits are an estimate only, as tax components will only be known with certainty at the end of the financial year. Past performance is not a reliable indicator of future performance.

Overview

Markets were generally softer in October, feeling a combination of pre-election jitters, rising geopolitical risks and resurgent bond yields. The S&P500 declined -1.0% and the NASDAQ eased -0.5%. The FTSE100 gave back -1.5%, and the Shanghai Composite fell -1.7%. The Japanese market lifted, with the Nikkei 225 rallying +3.1%.

The Australian market also ended its winning streak, with the ASX300 Accumulation Index down -1.3% over the month, having delivered a very strong return of +24.9% over the last 12 months.

The Fund is currently targeting FY25 net monthly distributions of 1.785 CPU. Based on the unit price at the start of the financial year, this equates to an annualised cash distribution yield of 5.6%.

Fund Characteristics

The objective of EIGA is to provide investors with an attractive level of tax effective income, paid via monthly distributions. EIGA aims to provide a gross distribution yield, adjusted for applicable franking credits, above that provided by the S&P/ASX300 Franking Credit Adjusted Daily Total Return Index (Tax-Exempt).

Portfolio Manager
Stephen Bruce

EIGA FUM
$34 million

Distribution Frequency
Monthly

Inception Date
7 May 2018

Fees
0.80% (incl. of GST and RITC)

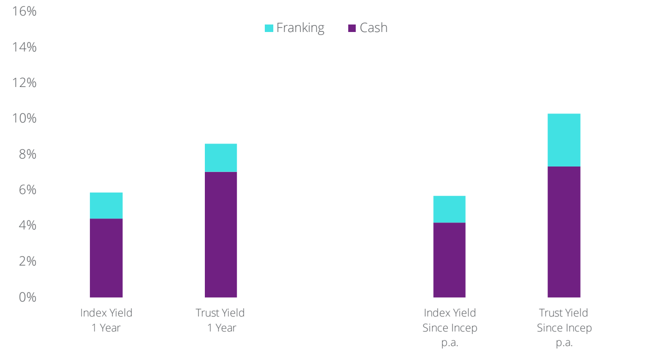
Portfolio Characteristics – FY25	Fund	Market
Price to Earnings (x)	17.7	19.0
Price to Free Cash Flow (x)	14.1	16.8
Gross Yield (%)	5.1	4.4
Price to NTA (x)	2.5	2.9

Source: Perennial Value Management. As at 31 October 2024.

The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

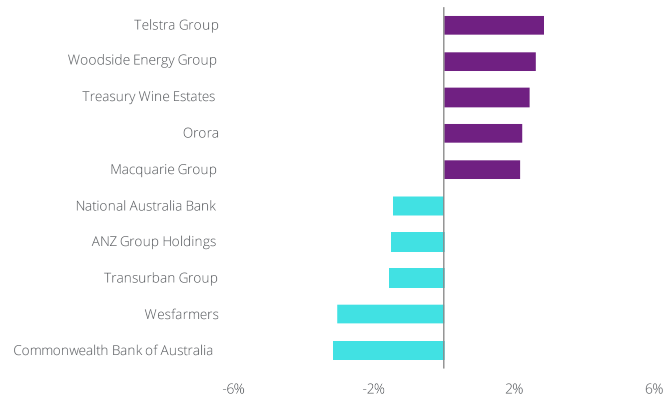
Franking Levels (%)			
FY24	60.0	FY21	100.0
FY23	75.5	FY20	100.0
FY22	99.6	FY19	101.4

Distribution Yield

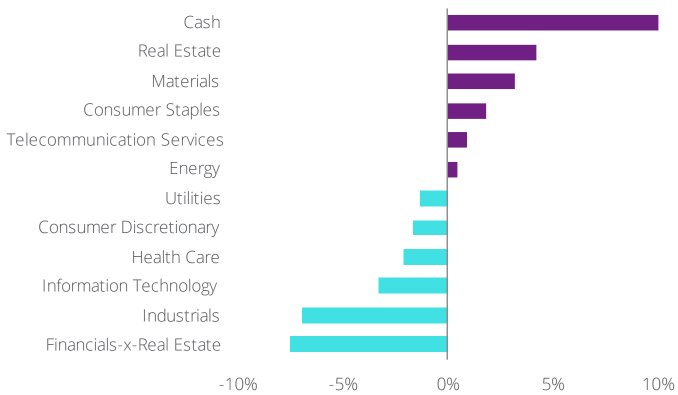


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Fund Review

The Fund returned –2.7%, including franking credits and after-fees in October, underperforming the benchmark by 1.3%.

Key contributors to performance included gaming machine manufacturer, Aristocrat Leisure (+5.0%). The company continues to perform strongly in the key US market, where it is gaining market share. Further, it continues to grow its installed base of "participation" machines. Rather than being an outright sale, these machines earn a share of revenue and, in this way, generate a higher-quality, more annuit-like income stream for the business.

The Banking sector resumed its upward grind in October, with the majors rising an average of +3.2%. It seems to us, that the sector is attracting flows due to being perceived as relatively "safe" compared to some other sectors of the market, with ongoing concerns around China and some questions over the outlook for the consumer. This thinking could explain why the banks continue to trade on record valuations, despite offering negligible earnings growth. While we generally agree with this assessment of the Banks' relative earnings certainty, it's important to remember that bad debts have been running at an exceptionally low level relative to any historical period. In the event that the economic outlook did take a turn for the worse, for whatever reason, then the banks could quickly become regarded, not as safe havens, but rather as the highly-leveraged, economic proxies that they actually are. The Fund continues to hold an underweight position in the sector.

Insurance stocks IAG (+1.9%) and Suncorp (-0.9%) both modestly outperformed, with the sector continuing to experience healthy premium rate growth across most business lines. Further, resurgent bond yields augur well for earnings from their investment portfolios. In contrast to the banks, we feel that the insurers have attractive defensive characteristics, while not trading on particularly demanding valuations.

CEOs behaving badly was another theme of the month. The Fund was a net beneficiary of this, as we did not hold Wisetech (-13.8%) or Mineral Resources (-24.3%). While "founder-led" businesses can have many positives, it's important the founder is subject to effective oversight!

October is traditionally when many companies hold their AGMs and give trading updates. Overall, updates have been skewed to the downside, with retailers in particular, highlighting more challenging conditions due to cost-of-living pressures etc. While some companies bucked the trend, such as JB Hi-Fi (+2.6%), weakness was seen in Coles (-2.6%), Wesfarmers (-4.5%), Woolworths (-10.0%) and Metcash (-14.5%). The Fund is underweight the consumer facing sectors.

The key driver of underperformance over the month was the Fund's overweight position in Resources stocks. In our view, Resources represent the clear value trade in the market at the present time. At current prices for iron ore (still >US$100/t!), copper and aluminium, the bulk miners are generating very strong cash flows. Further, other commodities such as rare earths, lithium and mineral sands are showing signs of having bottomed, with their equities having very considerable upside from these levels.

Fund Activity

During the month, we exited our holding in Wesfarmers, reinvesting the proceeds into Fortescue Metals and CSL. At month end, stock numbers were 27 and cash was 12.3%.

Distribution

In order to provide a regular income stream, the Fund pays monthly distributions. We aim to pay equal cash distributions each month, based on our estimate of the dividend income to be generated over the year. Franking credits, surplus income and any realised capital gains will then be distributed, as per usual, with the June distribution.

Looking to the current financial year, while the economic outlook is more uncertain, most companies are in good financial shape, and are expected to continue to pay healthy dividends. The Fund is currently forecasting a flat monthly net cash distribution of 1.785 CPU. Based on the month end unit price, this represents an annualised cash distribution yield of 5.6%.

Outlook

Globally, inflation continues to moderate, albeit at a slowing pace. The long-awaited US rate cutting cycle has begun, and this has been well-received by markets. Further, the step-up in Chinese stimulus measures is also positive for the global outlook. While the timing of cuts has been pushed out, there will likely be no further rate rises in Australia. As a result, the consensus view is that a soft landing will be achieved. This would be an excellent outcome. However, history suggests that soft landings are few and far between. Should inflation prove resurgent, then the sentiment could change quickly. In addition, it could be argued that factors such as the AI boom have driven a divergence between valuations and fundamentals, leaving large components of the market very fully-valued. Overall, we feel a degree of caution is warranted.

Corporate earnings have generally proven resilient to date, however, outside of the US, there is clear evidence that growth is slowing. In Australia, economic growth has stalled, and the economy has been in a per-capita recession for some time now. While tax cuts will boost disposable income, the consumer remains under pressure, and there are numerous stress points in the economy. This all leaves us cautious on discretionary sectors.

The Fund continues to offer a higher forecast gross yield than the overall market and, as always, our focus will continue to be on investing in quality companies with strong balance sheets, which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors.

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